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**The EQUITABLE LIFE insurance company
OF CANADA**

62nd Annual Report

1981

DIRECTORS

THOMAS R. SUTTIE*†*, F.I.A., F.C.I.A.
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Chairman of the Board
President

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WILLIAM H. TIMMIS*
JOHN A. TUCK†, Q.C.
JOHN G. WEBER†

*Member of Executive Committee

†Member of Audit Committee

• Member of Human Resources and Compensation Committee

HONORARY DIRECTORS

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H. E. POWER, F.C.I.S.

J. W. SCOTT

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G. R. BLAKE, F.L.M.I.
J. H. SUTHERLAND, C.L.U.
W. H. WAHL, F.C.I.S., F.L.M.I.

President
Senior Vice-President and Chief Actuary
Vice-President and Treasurer
Vice-President, Marketing
Vice-President, Corporate Services and Secretary

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G. L. BRUNT, C.L.U.
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L. J. HAMEL, F.L.M.I.
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Actuary, Individual Products
Taxation and Statement Officer
Employee Benefit Plans Sales Director
Accounting and Budget Officer
Investment Administrative Officer
Assistant Vice-President, Administration
Mortgage Lending Officer
Director of Advanced Sales
Group Actuary
Regional Sales Director
Associate Secretary and Personnel Officer
Equity Investment Officer
Systems Development Officer
Product Development Officer
Actuary, Group Research
Marketing Services Director
Data Processing Services Executive

HARPER, HANEY AND WHITE

Solicitors

P. G. SCHWAGER, M.D., F.R.C.P. (C)

Medical Director

DIRECTORS' REPORT

TO THE POLICYOWNERS OF THE EQUITABLE LIFE INSURANCE COMPANY OF CANADA

NEW BUSINESS - The volume of business written in 1981 (with 1980 figures shown for comparison) was as follows:-

	1981	1980
Individual Life Insurance	\$215,575,240	\$179,171,702
Individual Annuity	85,862,460	69,931,428
Group Life Insurance	117,230,250	108,136,200
Group Annuity	73,051,433	29,834,250
	<u>\$491,719,383</u>	<u>\$387,073,580</u>

Annuity sales are reported at the rate of \$1,200 per \$100 annual payment.

The total of \$491,719,383 exceeds that for the previous year by 27%.

PREMIUM INCOME - The premium income received in 1981 increased over that received in 1980 as shown by the following comparison:-

	1981	1980
Life Insurance	\$ 22,679,714	\$ 22,489,991
Annuity	18,646,860	16,866,302
Health Insurance	6,059,153	4,617,081
Segregated Funds	1,752,255	2,092,233
	<u>\$ 49,137,982</u>	<u>\$ 46,065,607</u>

NET INCOME - The net income before appropriations in 1981 at \$2,274,047 was substantially higher than the corresponding figure in 1980 of \$875,051. A major factor which reduced the 1980 income was the valuation strain on new annuity business. In 1981 a modification in the valuation procedures permitted the employment of a more generally adopted valuation method which reduced the strain from 1981 new annuity business.

INCOME TAX - As explained in Notes to the Financial Statements 1(e), the charge for Income Tax in the Statement of Income is an estimate of the amount payable. The degree of uncertainty is unusually great in respect of 1981 because a number of proposals in the November 12, 1981 Budget relate to the taxation of life insurance companies and it is unknown at this time whether they will be enacted into law and, if so, the precise terms of the amendments to the Act.

EARNED INTEREST RATE - This represents the return on the book value of investments made at varying interest rates over many years. The rates fluctuated widely in 1981; the average rate on new bond and mortgage investments in the year exceeded 16%. As a result the earned interest rate net of investment expenses increased to 10.02% from 9.66% in the previous year.

INVESTMENT RESERVE - The investment reserve of \$6,675,000 is in excess of the amount of \$4,597,397 required by the Canadian and British Insurance Companies Act. Under present uncertain economic conditions, the possibility of a future increase in interest rates over the very high levels reached in 1981 cannot be excluded. In such circumstances a considerable further increase in the demand for loans or cash surrender values would be probable, with the possibility of a need to realize some assets at a price considerably below their book values. The investment reserve would protect the company in such circumstances.

MORTALITY FLUCTUATION RESERVE - The mortality experience in 1981 was again favourable and \$400,000 was added to this reserve to bring it to \$3,494,545. This reserve can be drawn upon when, as must be expected, unfavourable upward fluctuations occur.

DIRECTORS - Because of the age limit imposed by the Canadian and British Insurance Companies Act, Dr. W. H. Timmis is ineligible for re-election at the Annual Meeting on February 17, 1982. Mr. Timmis was first elected as a Director in 1965. He was an initial member of the Audit Committee and has served as a member of the Executive Committee since 1974. His wide experience, unfailing support and wise advice will be greatly missed.

STAFF - 1981 was in many ways a trying and difficult year for both Field and salaried staff. The directors wish to record their sincere appreciation of the contributions of everyone to overcoming the many problems and achieving a successful year.

On behalf of the Board

T. R. Suttie, Chairman of the Board
D. L. MacLeod, President

STATEMENT OF ASSETS,

At December 31

	1981	1980
BONDS (Note 2)	\$ 48,136,005	\$ 46,524,944
MORTGAGES	143,610,599	132,342,809
SHARES (Note 3)	21,802,141	18,487,873
REAL ESTATE (Note 4)	4,687,285	4,825,337
LOANS TO POLICYOWNERS Fully secured by the cash value of policies of the company	19,339,605	14,891,461
CASH Including interest bearing deposit certificates withdrawable on demand	3,888,479	1,458,266
INVESTMENTS IN LIMITED PARTNERSHIPS - at cost	875,000	625,000
PREMIUMS IN COURSE OF COLLECTION	1,912,928	1,801,959
ACCRUED INVESTMENT INCOME	3,527,175	2,980,751
SEGREGATED FUNDS	11,501,297	13,561,978
MISCELLANEOUS ASSETS (Note 7)	716,169	543,079
OTHER ASSETS (Note 8)	750,427	1,594,079
	<u>\$260,747,110</u>	<u>\$239,637,536</u>

AUDITORS' REPORT TO THE POLICYOWNERS

We have examined the statement of assets, liabilities and surplus of The Equitable Life Insurance Company of Canada as at December 31, 1981, and the statements of income and unappropriated earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the opinion of the company's valuation actuary as to the amount of the total policy benefit liabilities.

In our opinion, based on our examination and the opinion of the company's valuation actuary, these financial statements present fairly the financial position of the company as at December 31, 1981, and the results of its operations for the year then ended in accordance with the accounting principles described in note 1 applied on a basis consistent with that of the preceding year.

KITCHENER, Canada
January 28, 1982

CLARKSON GORDON
Chartered Accountants

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the company are as prescribed or permitted by the Department of Insurance of Canada for the purpose of reporting to policyowners. The more significant policies followed by the company are as follows:

(a) Investments in bonds and mortgages are carried at amortized cost plus or minus the unamortized balance of the losses or gains on sale of such securities. Realized gains and losses are included in investment income in equal yearly amounts over the remaining term of the securities sold but not exceeding 20 years.

(b) Investments in shares are carried at cost increased by realized losses and decreased by realized gains with an adjustment towards market value each year of 7% of the difference between the adjusted book value and the year-end market value of all equity securities.

(c) The Head Office building and income producing property are carried at cost less accumulated depreciation computed on the straight-line basis at 2-1/2% or 5% per annum depending on the type of construction and mortgage indebtedness, if any. Furniture and equipment is depreciated at 20% of the declining balance.

(d) The actuarial liability for unmatured obligations carried in the liabilities and the increase in this liability carried in the statement of income were calculated allowing for deferred acquisition costs of up to 150% of the net level valuation premium, eliminating negative reserves, and with a cash value floor, in accordance with paragraph 82(8)(b) of the Canadian and British Insurance Companies Act.

(e) Since the information required for the accurate determination of certain items of taxable income was not available when the annual statement was prepared, the income tax charge against operations is an estimate of the amount payable. The Company follows the taxes payable method of providing for income taxes. Under this method taxes are provided for as incurred.

(f) The Company maintains a number of segregated funds with separate assets for each fund and issues policies with the benefits determined by the market value of the assets in the appropriate fund. The assets in these funds are therefore carried at market value.

2. **BONDS** - The carrying value of bonds includes \$1,482,845 at December 31, 1981 (\$1,077,959 in 1980) to reflect the unamortized balance of losses less gains on sales.

3. **SHARES** - The adjustment account deducted from cost in arriving at the carrying value amounted to \$2,630,518 at December 31, 1981 (\$1,490,163 in 1980).

4. **REAL ESTATE** - The real estate consists of Head Office property and income producing property. The accumulated depreciation is \$1,025,151 (\$856,492 in 1980) and mortgage indebtedness is \$1,713,705 (\$1,727,714 in 1980).

5. **ACTUARIAL LIABILITIES** - A comparison between the method employed (note 1(d)) and the net level premium reserve method is as follows:

	1981	1980
Actuarial liability on net level premium basis	\$ 206,412,184	\$ 187,217,914
Actuarial liability as stated	200,817,708	181,588,765
Unamortized deferred acquisition costs	<u>\$ 5,594,476</u>	<u>\$ 5,629,149</u>

6. **APPROPRIATED SURPLUS** - Changes in the components of appropriated surplus are as follows:

	1981	1980
Increase (decrease) in reserve for miscellaneous assets (note 7)	\$ 173,090	\$ 168,292
Increase in reserve for investments (note 7)	700,000	100,000
Increase in reserve for mortality fluctuations	400,000	200,000
Increase in contingency reserve for group insurance contracts	600,000	300,000
Total transfer to appropriated surplus	<u>\$ 1,873,090</u>	<u>\$ 768,292</u>

7. **RESERVES FOR VALUATION OF INVESTMENTS AND MISCELLANEOUS ASSETS** - The reserve for investments of \$6,675,000 includes \$4,597,397 for the investment valuation and currency reserve required by the Canadian and British Insurance Companies Act, an increase in the required reserve of \$1,863,237 from the preceding year. Miscellaneous assets, for which a 100% reserve is required by the Canadian and British Insurance Companies Act, include furniture and equipment (other than EDP equipment) of \$304,784 (\$229,164 in 1980) and the estimated recoverable portion of amounts advanced to agents of \$409,785 (\$311,515 in 1980).

8. **OTHER ASSETS** - Among other assets is electronic data processing equipment amounting to \$435,890 at cost less accumulated depreciation.

9. **COMPARATIVE FINANCIAL STATEMENTS** The comparative financial statements have been reclassified to conform with the presentation of 1981 financial statements.

LIABILITIES AND SURPLUS

	At December 31	
	1981	1980
ACTUARIAL LIABILITY FOR UNMATURED OBLIGATIONS (Note 5)	\$200,817,708	\$181,588,765
This amount, with future premiums and interest earnings, provides for the payment of benefits guaranteed by the Company in its policy contracts		
POLICYOWNERS' FUNDS	6,177,493	5,354,706
Policy proceeds and dividends left on deposit, policy benefits in process of payment, premiums received in advance and other policyowners' funds		
SEGREGATED FUNDS	11,501,297	13,561,978
POLICYOWNERS' DIVIDENDS	5,164,000	4,625,000
Provision for dividends payable in following year		
PROVISION FOR GROUP EXPERIENCE REFUNDS	1,565,326	1,711,075
PROVISION FOR UNREPORTED CLAIMS	1,806,118	1,665,449
An estimate of claims which may have occurred but have not yet been reported to the Company		
TOTAL POLICY BENEFIT LIABILITIES	<u>\$227,031,942</u>	<u>\$208,506,973</u>
TAXES AND EXPENSES DUE AND ACCRUED	617,378	525,330
OTHER LIABILITIES	1,672,084	1,453,574
Includes unallocated receipts		
TOTAL OBLIGATIONS	<u>\$229,321,404</u>	<u>\$210,485,877</u>
Reserve for miscellaneous assets (Note 7)	716,169	543,079
Reserve for investments (Note 7)	6,675,000	5,975,000
Reserve for mortality fluctuations	3,494,545	3,094,545
Contingency reserve for group insurance contracts	<u>7,379,306</u>	<u>6,779,306</u>
APPROPRIATED SURPLUS (Note 6)	\$ 18,265,020	\$ 16,391,930
UNAPPROPRIATED EARNED SURPLUS	\$ 13,160,686	\$ 12,759,729
TOTAL EARNED SURPLUS	<u>\$ 31,425,706</u>	<u>\$ 29,151,659</u>
	<u>\$260,747,110</u>	<u>\$239,637,536</u>

REPORT OF THE VALUATION ACTUARY

I have made the valuation of the Total Policy Benefit Liabilities of the Equitable Life Insurance Company of Canada for its Statement of Assets, Liabilities and Surplus at December 31, 1981 and its Statement of Income for the year then ended. In my opinion (i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries, (ii) the amount shown as the Total Policy Benefit Liabilities makes proper provision for the obligations payable in the future under the Company's policies, and (iii) a proper charge on account of those liabilities has been made in the Statement of Income.

January 27, 1982

H. I. McIntosh, F.S.A., F.C.I.A.
Senior Vice-President and Chief Actuary

STATEMENT OF INCOME

For year ended December 31
1981 1980

PREMIUMS:-		
Insurance	\$ 22,679,714	\$ 22,489,991
Annuity	18,646,860	16,866,302
Health	6,059,153	4,617,081
Segregated Funds	1,752,255	2,092,233
	<u>\$ 49,137,982</u>	<u>\$ 46,065,607</u>
EARNINGS FROM INVESTMENTS AFTER INVESTMENT EXPENSES		
Insurance, annuity and health	\$ 22,318,240	\$ 19,340,655
Segregated funds	840,016	751,900
Net realized and unrealized capital gains or (losses) on segregated funds	(1,870,508)	1,805,770
	<u>\$ 70,425,730</u>	<u>\$ 67,963,932</u>
BENEFITS PAID TO POLICYOWNERS AND BENEFICIARIES		
Death and disability benefits	\$ 6,908,945	\$ 5,296,893
Matured endowments and cash values	14,304,915	7,826,022
Annuity and settlement option payments	3,702,323	3,082,595
Interest on policyowners' funds	395,351	309,562
Health insurance benefits	4,457,496	3,599,934
Group experience refunds	1,423,453	1,406,588
Benefits paid from segregated funds	2,782,444	3,096,757
	<u>\$ 33,974,927</u>	<u>\$ 24,618,351</u>
PROVISION FOR FUTURE BENEFIT PAYMENTS		
Increase in actuarial liability for unmatured obligations	\$ 19,228,943	\$ 24,891,900
Increase in provision for group experience refunds	(145,749)	71,384
Increase in segregated funds	(2,060,681)	1,553,146
	<u>\$ 50,997,440</u>	<u>\$ 51,134,781</u>
OPERATING EXPENSES:-		
Compensation for sales and field service to policyowners	\$ 4,345,414	\$ 4,367,296
Service to policyowners at head office and branches	7,259,269	6,668,300
Premium and municipal taxes and license fees	648,784	576,604
	<u>\$ 63,250,907</u>	<u>\$ 62,746,981</u>
Income before dividends to policyowners and income tax	\$ 7,174,823	\$ 5,216,951
Dividends to policyowners in the year	4,119,776	3,772,900
Increase in provision for dividends to policyowners	539,000	440,000
Income before income tax	\$ 2,516,047	\$ 1,004,051
Income tax	242,000	129,000
NET INCOME FOR THE YEAR	<u>\$ 2,274,047</u>	<u>\$ 875,051</u>

STATEMENT OF UNAPPROPRIATED EARNED SURPLUS

	1981	1980
Net income for the year	\$ 2,274,047	\$ 875,051
Deduct appropriations (Note 6)	1,873,090	768,292
	<u>400,957</u>	<u>106,759</u>
Increase in unappropriated earned surplus for the year	\$ 12,759,729	\$ 12,652,970
Unappropriated earned surplus, beginning of year		
	<u>\$ 13,160,686</u>	<u>\$ 12,759,729</u>

BRANCH OFFICES

Branch Manager

CALGARY

L. G. STEEGSTRA

EDMONTON

T. P. SHERSTAN

HAMILTON

G. E. HARTMAN, C.L.U.

KELOWNA

H. V. WILLIAMS, C.L.U.

KITCHENER

B. L. O'HERON, C.L.U.
J. B. GALLIVAN, Sales Mgr.

LONDON

H. J. ROSE

OSHAWA

W. V. CLYMER

OTTAWA

S. K. CRAIG, C.L.U.
T. E. CINKANT, C.L.U., Sales Mgr.

Branch Manager

REGINA

J. J. McGEADY

ST. CATHARINES

F. K. CLARKE

TORONTO

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H. F. O'HARA, C.L.U.
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J. H. GREEN

TRENTON

J. A. JEFFERY
K. D. THOMPSON, Sales Mgr.

VANCOUVER

P. McRAE
L. R. TERRACE, C.L.U., Assoc. Mgr.

WINDSOR

P. S. REID, C.L.U.

WINNIPEG

B. H. MELICK, C.L.U.
D. K. PIRRIE, Sales Mgr.

GROUP OFFICES

CALGARY

F. SCHNEIDER, F.L.M.I.

TORONTO

P. KRAUSE

VANCOUVER

J. G. ROGERS

WATERLOO

G. L. BRUNT, C.L.U.

MORTGAGE LOAN OFFICES

LONDON

A. E. ELMSLIE, A.A.C.I.
Manager

EDMONTON

COLONIAL MORTGAGE CORP. LTD.
Representative

WATERLOO

W. G. McCOY, S.R.A., C.R.A.
Manager

TORONTO

KOPAS & BURRITT FINANCIAL
AGENTS LTD.
Representative



The **EQUITABLE LIFE** insurance company
OF CANADA